

Message Text

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PAGE 01 MANILA 08750 251145Z

54

ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4840

C O N F I D E N T I A L MANILA 8750

PASS USDA/FAS/K. STEPHENS/CEP AND D. WILLIAMS/COT/IMD

STATE FOR J. WILLIAMS/F&TD

E.O. 11652: GDS

TAGS: EAGR, RP

SUBJECT: YUPANGCO-COTTON IMPORT EXPORT COMPANY COTTON CONTRACT

REF: STATE 148866

1. MISSION UNDERSTANDS FROM DEVELOPMENT BANK OF THE PHILIPPINES THAT YUPANGCO REFUSES OPEN LETTERS OF CREDIT ON OUTSTANDING CONTRACTS WITH COTTON IMPORT AND EXPORT COMPANY AND HAS FILED SUIT ON 1,500 BALES OUTSTANDING UNDER CONTRACTS CAG 439 AND CAG 440. IN LETTER TO AGATT DBP SUGGESTS THAT CASE OF ALL OUTSTANDING YUPANGCO CONTRACTS BE BROUGHT TO COURT AND DECLARES ITS INTENTION TO ALLOW YUPANGCO TO OPEN LETTERS OF CREDIT UNDER FREE DOLLARS FOR ITS COTTON REQUIREMENTS.

2. MISSION HAS INFORMALLY ADVISED DBP OF U.S. VIEW THAT DISPUTE BETWEEN YUPANGCO AND CIEC DOES NOT RELIEVE DBP OF ITS OBLIGATIONS TO ENSURE OPENING OF LETTERS OF CREDIT FOR 7,500 BALES IN OUTSTANDING YUPANGCO CONTRACT, MISSION WILL BE SENDING FORMAL CONFIRMATION OF THIS POSITION TO DBP. INITIAL DBP
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PAGE 02 MANILA 08750 251145Z

RESPONSE TO INFORMAL REPRESENTATIONS INDICATE

REVERSAL OF ITS POSTION MAY REQUIRE SOME EFFORT.

3. YUPANGCO PROBLEM UNDOUBTEDLY AGGRAVATED BY MESSY HISTORY OF NEGOTIATIONS AMONG YUPANGCO, CIEC AND DBP. LETTER FROM DBP INDICATES WITHDRAWAL BY CIEC OF REPORTED OFFER TO PAY CARRYING CHARGES OF ABOUT \$244 THOUSAND WAS ONE FACTOR IN BREAKDOWN OF THESE NEGOTIATIONS. DBP STATES CONCESSION ON SHIPPING CHARGES HAS BEEN ACCORDED BY OTHER SUPPLIERS WHERE NO DISPUTE EXISTED OVER QUALITY. ANOTHER MAJOR FACTOR, AS DBP RECITAL RUNS, IS CIEC POSITION REGARDING ITS FEBRUARY OFFER TO PROVIDE SUBSTITUTE DEAL FOR HIGHER QUALITY COTTON AT MARGINALLY CHANGED PRICE.

4. DESPITE PATENT TRANSPARENCY OF YUPANGCO AND DBP ARGUMENTS, MISSION BELIEVES EARLY SOLUTION TO PROBLEM REQUIRES FURTHER EFFORTS BY CIEC TO REACH NEGOTIATED SOLUTION IN CONTEXT OF DBP ASSURANCES. MISSION RECOMMENDS THAT WASHINGTON AGENCIES SUGGEST TO CIEC THAT IT RENEW NEGOTIATIONS WITH DBP AND YUPANGCO. MISSION WILL LEND EVERY SUPPORT POSSIBLE TO ANY RENEWED EFFORT BY CIEC.
PURNELL

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